

# FICTION: RAISING TAXES IS THE ONLY WAY TO RESTORE FISCAL STABILITY.

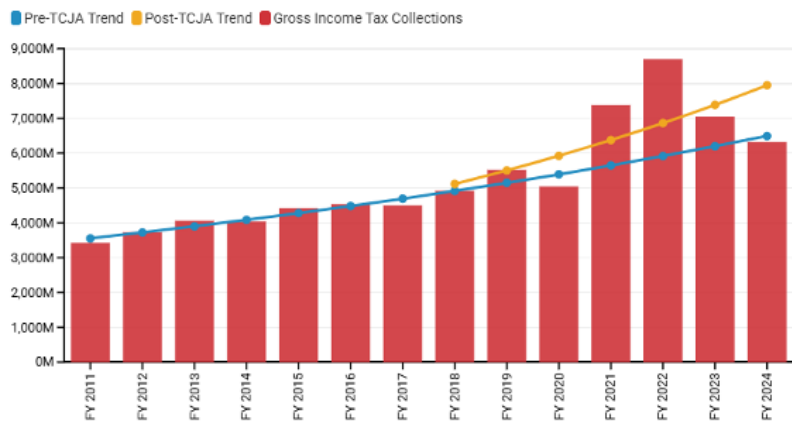
“The flat tax’s \$2 billion annual cost has had visible consequences and was a prime contributor to the budget deficits and cuts made during this legislative session”<sup>ii</sup>

## FACTS:

- Without the flat tax, Arizona would not have seen the type of job and revenue growth we’ve seen. **While revenue forecasters thought the state would see a \$4 billion drop in revenue over 10 years from the flat tax, the actual cost was more like \$1.4 billion.**
- For perspective, General Fund revenue growth today is more than \$2 billion above long-run trends – meaning we’re bringing in more new money every year than the net cost of these policies over a decade.
- Originally, state budget forecasters expected the General Fund to hit \$12.8 billion in 2024 – triggering the 2.5% Flat Tax into effect during that taxy year. Instead, the General Fund revenue unexpectedly grew to nearly \$17 billion by the end of 2022 as the state economy surged.
- Expenditure growth hasn’t been constrained since the Flat Tax took effect on January 1, 2023. In fact, spending growth has continued to outpace long-run norms. Over the three years since the Flat Tax began to take effect, average General Fund spending growth was 8.49%, vs. 4.15% over the 10 years prior. This even accounts for the re-balancing FY 2025 budget.

### Income Tax Trends Before & After 2017

State conformity to the Tax Cuts & Jobs Act dramatically accelerated income tax revenue growth; the recent income tax cuts have returned collections their long-run trend with faster income tax growth on the horizon because of the lower income tax rate.



Source: JLBTC Tax Handbook • FY 2024 revenue projections are from the October FAC forecast.

- Prior research by CSI has highlighted the shortsightedness associated with policies that would repeal the 2.50% Flat Tax or add a new income tax surcharge on high-earners:
  - > The State's GDP would **drop by about \$11.9 billion** over a decade.
  - > Arizona would have about **58,800 fewer jobs**.
  - > Real **per capita disposable income would drop by \$684**.

Measure	Impact
State GDP	-\$11.9 billion
Jobs	-58,800
Real per capita disposable income	-684

Source: REMI, CSI Research and Modeling

## BOTTOM LINE

Arizona has seen its budget grow by almost \$2.5 billion since implementation of the flat tax. Policymakers should have anticipated a return to normal revenue trends after five years of unprecedented tax revenue growth beginning after federal and state tax cuts (the Tax Cuts & Jobs Act and the 2.5% Flat Tax). Instead, policymakers allowed spending growth to rapidly catch up with revenues over just two budget years, and exhausted cash reserves in a single budget – right as revenue growth had already started slowing.